Foundations of MARKETING
Seventh Edition

Chapter 3

# THE MARKETING ENVIRONMENT, SOCIAL RESPONSIBILITY, AND ETHICS

Pride | Ferrell

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# Learning Objectives

3-1 Summarize why it is important to examine and respond to the marketing environment.

3-2 Explain how competitive factors affect an organization's ability to compete.

3-3 Articulate how economic factors influence a customer's ability and willingness to buy products.

3-4 Identify the types of political forces in the environment.

3-5 Explain how laws, government regulations, and self-regulatory agencies affect marketing activities.

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# Learning Objectives (continued)

3-6 Describe how new technology impacts marketing and society.

3-7 Outline the sociocultural issues marketers must deal with as they make decisions.

3-8 Define the four dimensions of social responsibility.

3-9 Examine how social responsibility and ethics can be incorporated into strategic planning.

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# Environmental Forces

| | | |
|---|---|---|
| Economic | Competitive | Political |
| Technological | Sociocultural | Legal and Regulatory |

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# Marketing Environment

- Monitoring the environment is crucial to achieve long-term goals of the organization
- Changes in the marketing environment are monitored by
  - Environmental scanning
  - Environmental analysis

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# Environmental Scanning

**Environmental scanning** - collecting information about forces in the marketing environment which involves

- Observation
- Secondary sources such as business, trade, government, and Internet sources
- Marketing research; internet enables companies to gather information quickly

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# Environmental Analysis

**Environmental analysis** - assessing and interpreting information gathered through environmental scanning

- Identifies potential threats linked to environmental changes
  - Raises in interest rates
  - Raises in commodity prices
- Identifies opportunities linked to environmental changes
  - increases in consumer income
  - Decreases in unemployment rate
  - Sudden drop in commodity prices

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# Approaches to Environmental Forces

- Passive and reactive — accepting them as uncontrollable
- Proactive — attempting to influence and shape them; can be constructive and bring desired results

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# Discussion Point - Responding to the Marketing Environment

96 ELEPHANTS
ARE KILLED EVERY
DAY IN AFRICA
"If we do not act, we will have to shamefully admit to our children that we stood by as elephants were driven out of existence."
TAKE ACTION NOW
96ELEPHANTS.ORG

Source: Wildlife Conservation Society.

The sponsors of this ad are trying to educate consumers about about the endangered status of elephants in order to urge them to take action.

*How do marketing managers exert influence on environmental forces?*

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# Competition

**Competition** – other firms market products similar to, or can be substituted for, a firm's products in the same geographic area

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# Competitive Forces

- **Brand competitors** — firms that market products with similar features and benefits to the same customers at similar prices
- **Product competitors** — compete in the same product class but market products with different features, benefits, and prices
- **Generic competitors** – provide very different products that sole the same problem or satisfy the same basic customer need
- **Total budget competitors** — compete for the limited financial resources of the same customers

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# Discussion Point – Brand Competition

©iStockPhoto.com/powerofforever.

Coke and Pepsi compete head-to-head in the soft-drink market.

*Provide some examples of*

- *product competitors*
- *generic competitors*
- *total budget competitors*

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# Competitive Structures

- **Monopoly** – organization offers a product with no close substitutes, making the organizing the sole source of supply
- **Oligopoly** – a few sellers control the supply of a large portion of a product
- **Monopolistic competition** – a firm has many potential competitors and tries to develop a marketing strategy to differentiate its product
- **Pure competition** – extremely large number of sellers, none strong enough to significantly influence price or supply

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# Table 3.1 - Selected Characteristics of Competitive Structures

| Type of Structure | Number of Competitors | Ease of Entry into Market | Product | Example |
|---|---|---|---|---|
| Monopoly | One | Many barriers | Almost no substitutes | Water utilities |
| Oligopoly | Few | Some barriers | Homogeneous or differentiated (with real or perceived differences) | UPS, FedEx, Postal Service (package delivery) |
| Monopolistic competition | Many | Few barriers | Product differentiation, with many substitutes | Wrangler, Levi Strauss (jeans) |
| Pure competition | Unlimited | No barriers | Homogeneous products | Vegetable farm (sweet corn) |

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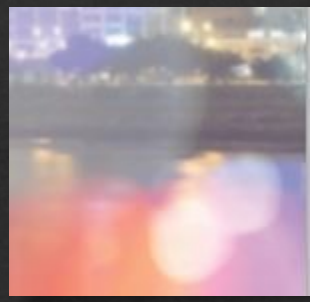
# Discussion Point - Oligopoly



Source: Southwest Airlines Co.

The airline industry is an example of an oligopoly. In the United States, Southwest competes with only a few other major airlines. Its advertising emphasizes its superiority with its great deals for passengers—and their pets.

*What other industries face oligopolistic competition?*

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# Monitoring Competition

- Helps determine competitor's strategies and their effects on the firm's own strategies
- Price is one of the marketing strategy variables that most competitors monitor
- Firms must develop a system for gathering ongoing information about competitors
- Allows to
  - Assess marketing efforts
  - Recognize the strengths and weaknesses

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# Economic Forces

- **Buying power** - depends on economic conditions and the size of the resources that enable the individual to make purchases
- Types of income
  - **Disposable income** - amount of money left after payment of taxes
  - **Discretionary income** - disposable income that is available for spending and saving

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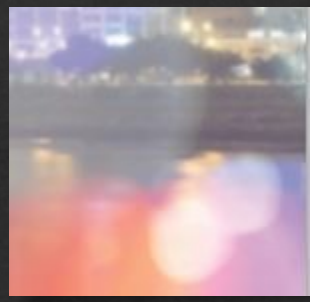
# Discussion Point – Discretionary Income



Source: Rolex

Rolex is an upscale brand of watches. Consumers use their discretionary income to purchase Rolex watches.

*What other types of products are affected by discretionary income?*

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# Credit

- Enables to spend future income now or in the near future
- Increases current buying power at the expense of future buying power
- Factors affecting credit use
  - Availability of the loans
  - Interest rates
  - Credit terms

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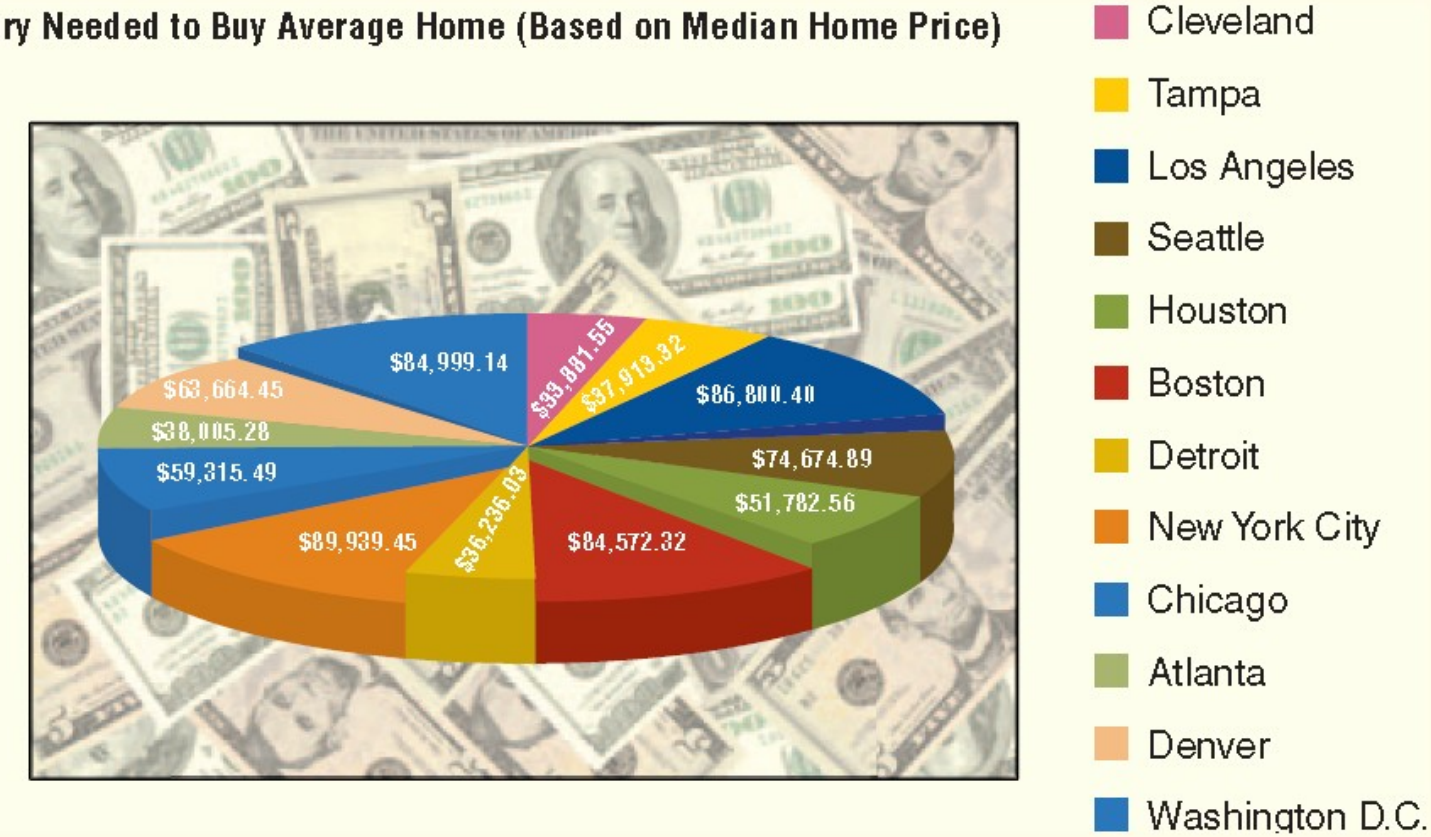
# Required Salary to Buy a Home

SNAPSHOT




Source: Tim Manni, "The salary you must earn to buy a home in 27 metros," HSH.com, August 15, 2014, www.hsh.com/finance/mortgage/salary-home-buying-25-cities.html (accessed September 16, 2014).

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# Wealth

- Accumulation of past income, natural resources, and financial resources
- As people become wealthier, they gain buying power to
  - Make current purchases
  - Generate income
  - Acquire large amounts of credit

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# Willingness to Spend

**Willingness to spend** - people's inclination to buy because of expected satisfaction from a product

- Related to ability to buy
- Other factors that affect consumers' general willingness to spend
  - Buying power
  - Product's price
  - Satisfaction from a product already owned
  - General economic conditions

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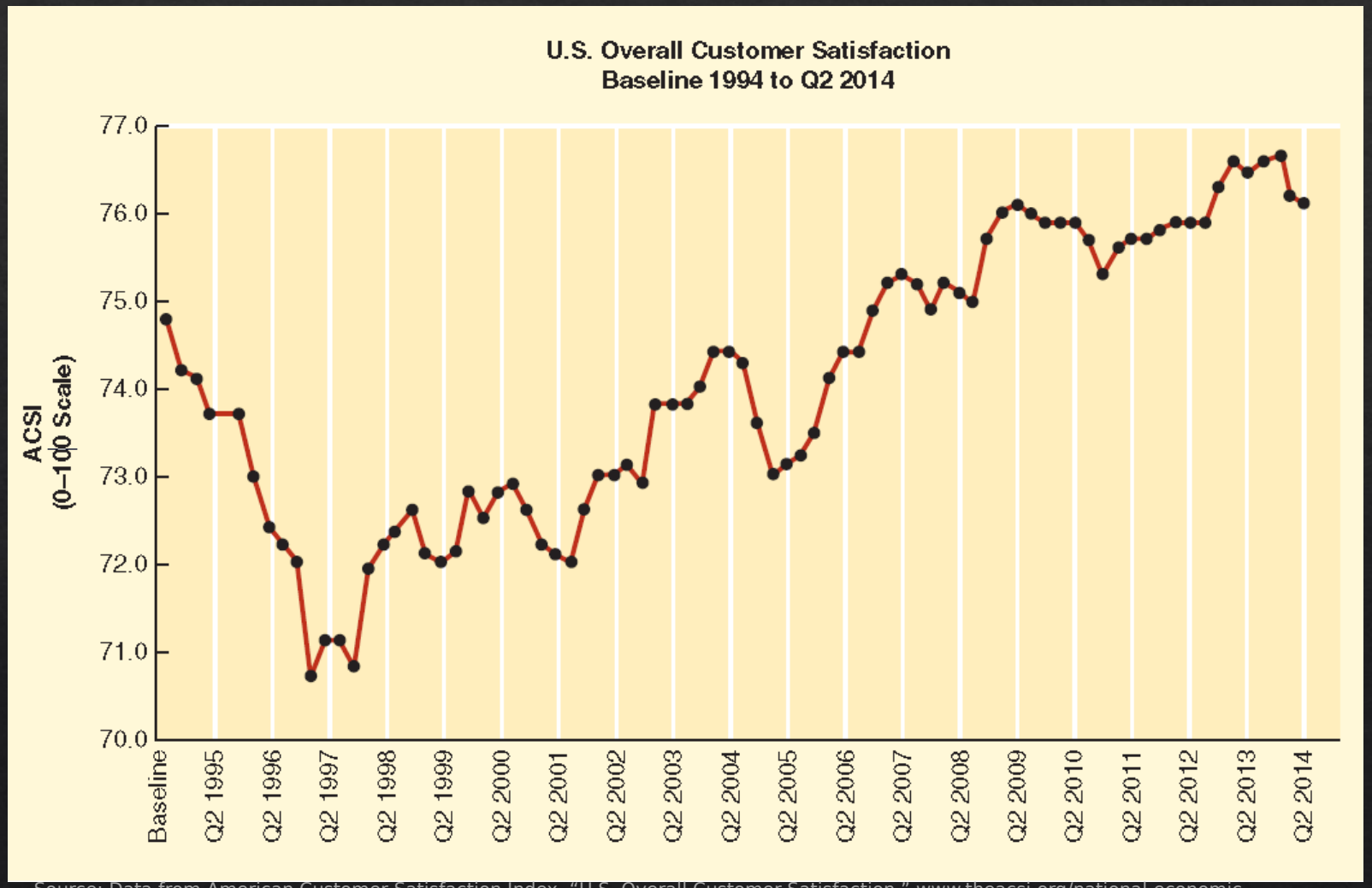
# Figure 3.1 – National Customer Satisfaction Benchmark




Source: Data from American Customer Satisfaction Index, "U.S. Overall Customer Satisfaction," www.theacsi.org/national-economic-indicator/us-overall-customer-satisfaction (accessed November 14, 2014).

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# Business Cycle

**Business cycle** - fluctuations in the economy that follow a general pattern in four stages

- Prosperity
  - Low unemployment
  - Relatively high total income
  - High buying power when inflation rate is low
- Recession
  - Unemployment rises
  - Total buying power declines
  - Stifles both consumer and business spending

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# Business Cycle (continued)

- Depression
  - Unemployment  is extremely high
  - Wages are very low
  - Total disposable income is at a minimum
  - Consumers lack confidence in the economy
- Recovery
  - Economy moves from depression or recession to prosperity
  - High unemployment begins to decline
  - Both the ability and willingness to buy increase

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# Political Forces

Political, legal, and regulatory forces influence marketing decisions and strategies.

- Reactive markets adjust to the conditions
- Proactive firms seek to influence the political process

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# Table 3.2 - Major Federal Laws Affecting Marketing Decisions

| **Procompetitive legislation** | |
|---|---|
| Sherman Antitrust Act (1890) | Prohibits contracts, combinations, or conspiracies to restrain trade; calls monopolizing or attempting to monopolize a misdemeanor offense. |
| Clayton Act (1914) | Prohibits specific practices such as price discrimination, exclusive dealer arrangements, and stock acquisitions in which the effect may notably lessen competition or tend to create a monopoly. |
| Federal Trade Commission Act (1914) | Created the Federal Trade Commission; also gives the FTC investigatory powers to be used in preventing unfair methods of competition. |
| Robinson-Patman Act (1936) | Prohibits price discrimination that lessens competition among wholesalers or retailers; prohibits producers from giving disproportionate services of facilities to large buyers. |
| Wheeler-Lea Act (1938) | Prohibits unfair and deceptive acts and practices, regardless of whether competition is injured; places advertising of foods and drugs under the jurisdiction of the FTC. |
| Celler-Kefauver Act (1950) | Prohibits any corporation engaged in commerce from acquiring the whole or any part of the stock or other share of the capital assets of another corporation when the effect substantially lessens competition or tends to create a monopoly. |
| Consumer Goods Pricing Act (1975) | Prohibits the use of price-maintenance agreements among manufacturers and resellers in interstate commerce. |
| Antitrust Improvements Act (1976) | Requires large corporations to inform federal regulators of prospective mergers or acquisitions so that they can be studied for any possible violations of the law. |

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# Table 3.2 - Major Federal Laws Affecting Marketing Decisions

| Consumer protection legislation | |
|---|---|
| Pure Food and Drug Act (1906) | Prohibits the adulteration and mislabeling of food and drug products; established the Food and Drug Administration. |
| Fair Packaging and Labeling Act (1966) | Makes illegal the unfair or deceptive packaging or labeling of consumer products. |
| Consumer Product Safety Act (1972) | Established the Consumer Product Safety Commission; protects the public against unreasonable risk of injury and death associated with products. |
| Magnuson-Moss Warranty (FTC) Act (1975) | Provides for minimum disclosure standards for written consumer product warranties; defines minimum consent standards for written warranties; allows the FTC to prescribe interpretive rules in policy statements regarding unfair or deceptive practices. |
| Nutrition Labeling and Education Act (1990) | Prohibits exaggerated health claims and requires all processed foods to contain labels showing nutritional information. |
| Telephone Consumer Protection Act (1991) | Establishes procedures to avoid unwanted telephone solicitations; prohibits marketers from using an automated telephone dialing system or an artificial or prerecorded voice to certain telephone lines. |
| Children's Online Privacy Protection Act (2000) | Regulates the online collection of personally identifiable information (name, mailing address, e-mail address, hobbies, interests, or information collected through cookies) from children under age 13. |

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# Table 3.2 - Major Federal Laws Affecting Marketing Decisions

| | |
|---|---|
| **Consumer protection legislation** | |
| Do Not Call Implementation Act (2003) | Directs the Federal Communications Commission (FCC) and the FTC to coordinate so that their rules are consistent regarding telemarketing call practices, including the Do Not Call Registry and other lists, as well as call abandonment. |
| Credit Card Act (2009) | Implements strict rules on credit card companies regarding topics such as issuing credit to youths, terms disclosure, interest rates, and fees. |
| Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) | Promotes financial reform to increase accountability and transparency in the financial industry, protects consumers from deceptive financial practices, and established the Bureau of Consumer Financial Protection. |
| **Trademark and copyright protection legislation** | |
| Lanham Act (1946) | Provides protections and regulation of brand names, brand marks, trade names, and trademarks. |
| Trademark Law Revision Act (1988) | Amends the Lanham Act to allow brands not yet introduced to be protected through registration with the Patent and Trademark Office. |
| Federal Trademark Dilution Act (1995) | Gives trademark owners the right to protect trademarks and requires relinquishment of names that match or parallel existing trademarks. |
| Digital Millennium Copyright Act (1998) | Refines copyright laws to protect digital versions of copyrighted materials, including music and movies. |

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# Discussion Point - Protesting against Business and Government

betto rodrigues/Shutterstock

Protestors carry signs to protest genetically modified food and call for food transparency.

*How can companies participate in political processes?*

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# Regulatory Agencies

**Federal Trade Commission (FTC)** – an agency that regulates a variety of business practices

- Controls false advertising
- Controls misleading pricing
- Controls deceptive packaging and labeling

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# Major Federal Regulatory Agencies

| Agency | Major Areas of Responsibility |
|---|---|
| Federal Trade Commission (FTC) | • Regulates a variety of business practices<br>• Allocates a considerable resources to curbing false advertising, misleading pricing, and deceptive packaging and labeling |
| Food and Drug Administration (FDA) | • Enforces regulations prohibiting the sale and distribution of adulterated, misbranded, or hazardous food and drug products |
| Consumer Product Safety Commission (CPSC) | • Ensures compliance with the Consumer Product Safety Act<br>• Protects the public from unreasonable risk of injury from any consumer product not covered by other regulatory agencies |
| U.S. Foreign Corrupt Practices Act (FCPA) | • Prohibits American companies from making illicit payments to foreign officials in order to obtain or keep business |
| U.K. Bribery Act | • More encompassing than the FCPA<br>• Companies can be found guilty even if the bribery did not take place within the U.K<br>• Company officials without explicit knowledge about the misconduct can still be held accountable |

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# Discussion Point – Consumer Credit Card Security

Stockphoto.com/gmutlu

Credit card theft has created the need for consumer vigilance and regulatory agencies' assistance in preventing fraud.

*How do consumer protection laws help to protect consumers?*

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# Self-Regulatory Forces

- **Better Business Bureau (BBB)** – a local, nongovernmental regulatory agency supported by local businesses
  - Acts to preserve good business practices in a locality
  - When a firm violates, warns consumers through newspapers or broadcast media
- National Advertising Division (NAD) - investigates claims regarding alleged deceptive advertising
- **National Advertising Review Board (NARB) -** considers cases in which an advertiser challenges issues raised by the

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# Advantages and Disadvantages of Self-Regulatory Forces

## Advantages

- Establishment and implementation are less expensive
- Guidelines are realistic and operational
- When effective, reduce the need to expand government bureaucracy

## Disadvantages

- Nonmembers do not have to abide by their rules
- Many lack the authority to enforce guidelines
- Guidelines are less strict than those established by government agencies

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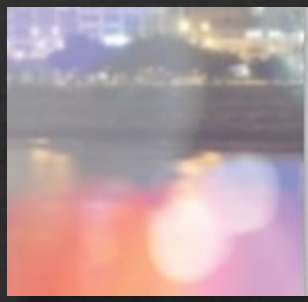
# Discussion Point – Self-Regulation



BBB at a GLANCE
Our vision is an ethical marketplace where buyers and sellers can trust each other.
2013 Statistics from Better Business Bureaus in the U.S. and Canada
Start With Trust.®
BBB
132,385,251
BBB BUSINESS REVIEW INQUIRIES
918,695
COMPLAINTS HANDLED
5,321,972
BBB WISE GIVING ALLIANCE CHARITY REPORT REQUESTS
15,914
BBB AUTO LINE CASES
69,829,170
GENERAL ASSISTANCE, COUNSELING & INDUSTRY INFORMATION
MEDIA COVERAGE
137,000 MENTIONS IN TOP 115 MARKETS = 560 MILLION IMPRESSIONS
27,055
MEDIATIONS, ARBITRATIONS, & DISPUTE SETTLEMENT HEARINGS
10,787
INVESTIGATIONS CONDUCTED
246
NATIONAL ADVERTISING REVIEWS
208,509,090
TOTAL INSTANCES OF SERVICES TO BUSINESSES, CHARITIES & THE GENERAL PUBLIC
Visit us at bbb.org for information you can trust.

Source: www.bbb.org

The Better Business Bureau is one of the best-known self-regulatory programs.

*What happens when the BBB believes a firm violates good business practices?*

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# Technological Forces

**Technology** – the application of knowledge and tools to solve problems and perform tasks more efficiently

- Determines how physiologic needs are satisfied
- Helps reach vast numbers of people more efficiently through a variety of media
- Impacts of technology
  - Dynamics and reach
  - Self-sustaining nature

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# Importance of Technological Forces

- Important to
  - Determine when a technology is changing an industry
  - Define the strategic influence of the new technology
- Technology assessment
  - Used to foresee the effects of new products and processes on operations of the firm
  - Used to determine if benefits of adopting a specific technology outweigh costs to the firm and the society at large.

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# Sociocultural Forces

**Sociocultural forces** - influences in a society and its culture(s) that bring about changes in attitudes, beliefs, norms, customs, and lifestyles

- Determine what, where, how, and when people buy products
- Changes in a population's demographic characteristics
  - Affect relationships and individual behavior
  - Lead to changes in how people live and ultimately in their consumption
- Monitoring value changes helps marketers to predict changes in consumers' needs for products

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# Discussion Point – Sociocultural Forces

Arina P Habich/Shutterstock.com

Growing concerns for health, sustainability, and support for local economies is causing many consumers to turn toward locally grown foods. Locally grown foods provide revenues for farmers and reduce carbon emissions because they decrease transportation distances.

*How do demographic changes affect marketing activities?*

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# Social Responsibility

- **Social responsibility** – an organization's obligation to maximize positive impact and minimize negative impact on society
- Managerial processes
  - Monitor, satisfy, and exceed stakeholder expectations and needs
  - Can have indirect long-term benefits

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# Socially Responsible Organizations

- Socially responsible organizations strive for marketing citizenship by adopting a strategic focus for fulfilling the stakeholders' expectations
- **Marketing citizenship** - adoption of a strategic focus for fulfilling the economic, legal, ethical, and philanthropic social responsibilities expected by stakeholders

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# Stakeholder Orientation

Stakeholder orientation - companies that consider the diverse perspectives of

- Stakeholders in their daily operations
- Strategic planning

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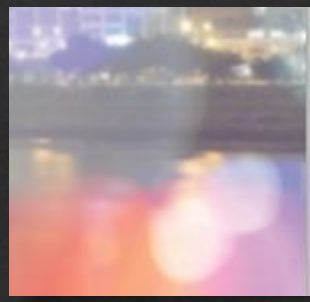
# Discussion Point - Social Responsibility



BAKED BEFORE SUNRISE
DONATED AFTER SUNSET
Our bread is baked the right way—from fresh dough every morning in every bakery-cafe. And then everything we have left is donated to people in need every night. So our bread not only tastes better. It makes a difference. Which we think is a good reason to get up and do it all over again. Learn more at panerabread.com.
LIVE CONSCIOUSLY
Panera BREAD
EAT DELICIOUSLY

Source: © Panera Bread

Panera's social responsibility in donating bread to the local community impacts key stakeholders, including customers, employees, and communities.

*Explain how social responsibility affects employees, customers, and communities.*

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# Economic and Legal Responsibility

- Followed by companies to be profitable so they can
  - Provide a return on investment to their owners and investors
  - Create jobs for the community
  - Contribute goods and services to the economy
- Legal cases can be
  - A violation of law
  - An attempt to interpret the law
  - A fraud

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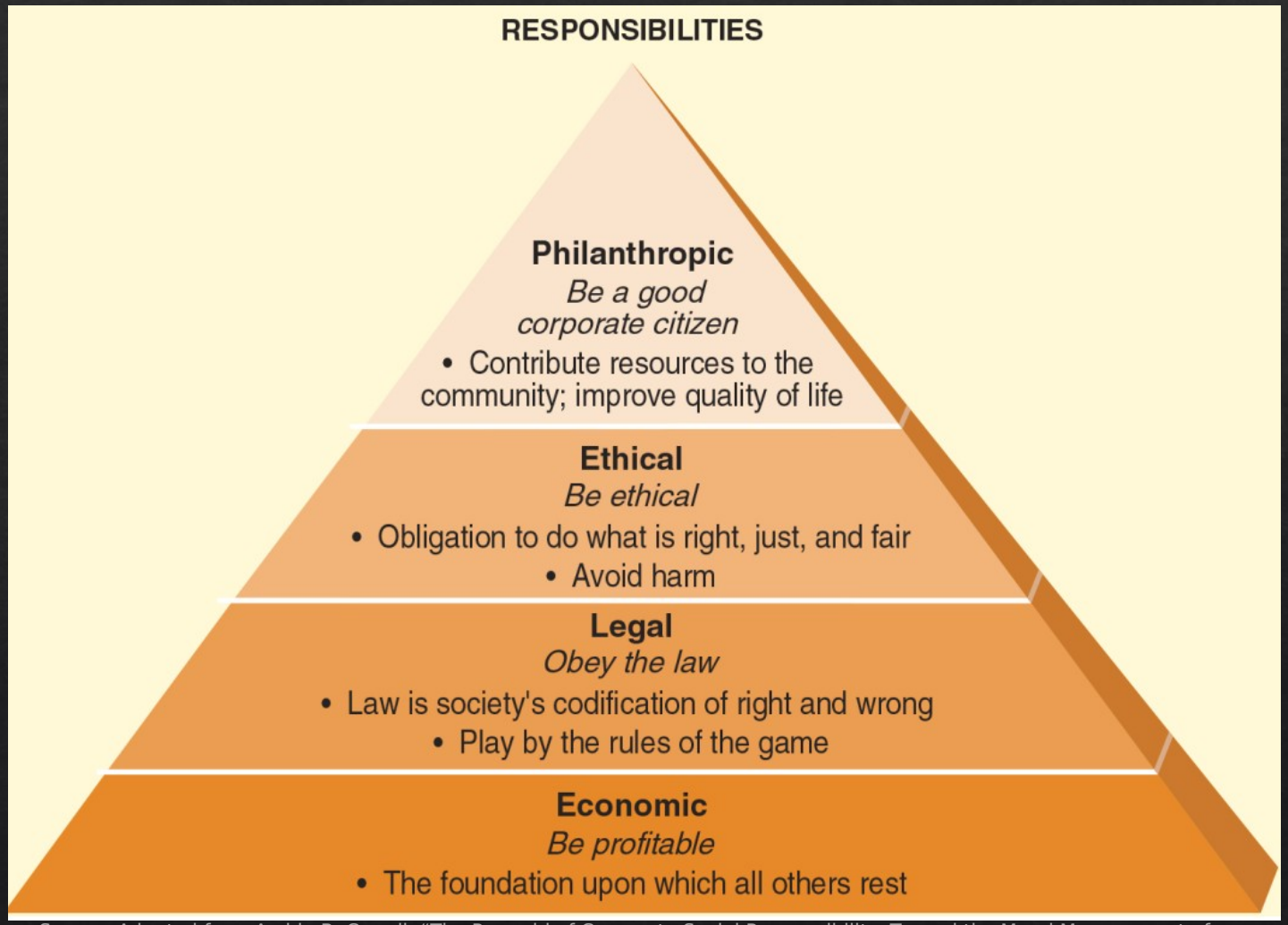
# Figure 3.2 - The Pyramid of Corporate Social Responsibility


RESPONSIBILITIES
Philanthropic
Be a good corporate citizen
• Contribute resources to the community; improve quality of life
Ethical
Be ethical
• Obligation to do what is right, just, and fair
• Avoid harm
Legal
Obey the law
• Law is society's codification of right and wrong
• Play by the rules of the game
Economic
Be profitable
• The foundation upon which all others rest

Source: Adapted from Archie B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," adaptation of Figure 3, p. 42.

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# Marketing Ethics

- Principles and standards that define acceptable marketing conduct
  - As determined by various stakeholders
  - Goes beyond legal issues
  - Foster trust, which helps to build long-term marketing relationships
- Break down in exchange process can result in
  - Customer dissatisfaction and lack of trust
  - Lawsuit

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# Ethical Issue

- **Ethical issue** – an identifiable problem, situation, or opportunity requiring an individual or organization to choose from actions that must be evaluated as
  - Right or wrong
  - Ethical or unethical
- Greater the consequences associated with an issue
  - More likely it will be recognized as an ethics issue
  - More important it will be to making an ethical decision

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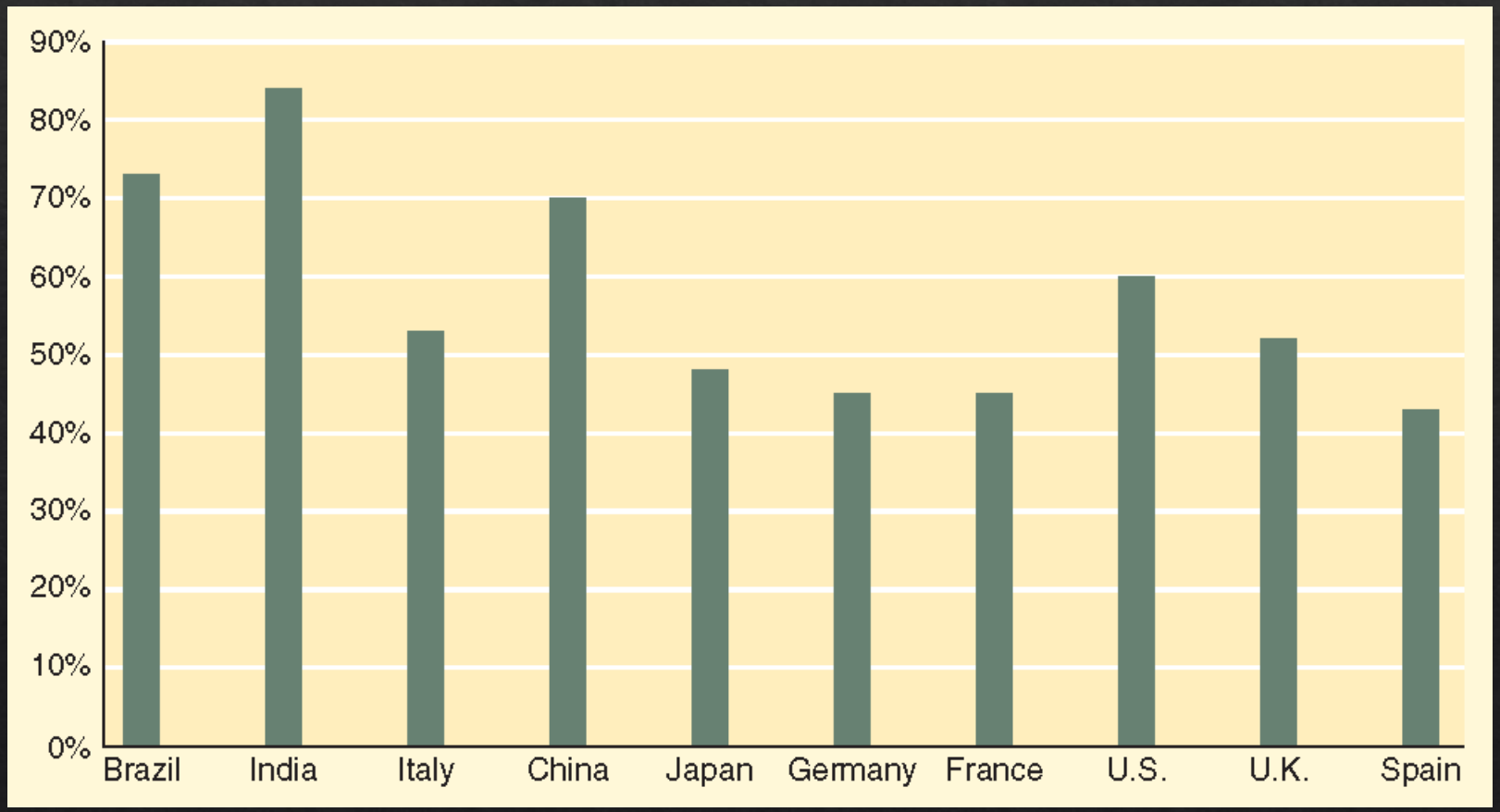
# Figure 3.3 – Trust in Business for Selected Countries




Source: Edelman, Edelman Trust Barometer 2015 Annual Global Study, http://www.edelman.com/insights/intellectual-property/2015-edelman-trust-barometer/ (accessed June 5, 2015).

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# Table 3.3 – Ethical Issues in Marketing

| Issue Category | Examples |
|---|---|
| Product | • Failing to disclose risks associated with a product<br>• Failing to disclose information about a product's function, value, or use<br>• Failing to disclose information about changes in the nature, quality, or size of a product |
| Pricing | • Price fixing<br>• Predatory pricing<br>• Failing to disclose the full price of a purchase |
| Distribution | • Failing to live up to the rights and responsibilities associated with supply-chain member roles (e.g. manufacturers, wholesalers, distributors, retailers)<br>• Manipulating product availability<br>• Using coercion to force other intermediaries to behave in a certain way |
| Promotion | • False or misleading advertising<br>• Using manipulative or deceptive sales promotions, tactics, and publicity<br>• Offering or accepting bribes in personal selling situations |

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# Philanthropic Responsibilities

- Promote human welfare or goodwill
- **Cause-related marketing** - practice of linking a firm's products to a particular social cause on an ongoing or short-term basis
- **Strategic philanthropy approach** - synergistic use of organizational core competencies and resources
  - To address key stakeholders' interests
  - Achieve both organizational and social benefits

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# Strategic Philanthropy

- Involves
  - Employees
  - Organizational resources and expertise
  - Ability to link these assets to the concerns of key stakeholders
- Involves both financial and nonfinancial contributions to stakeholders

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# Sustainability

- Social responsibility is demonstrated through programs designed to protect and preserve the natural environment such as aims to reduce, reuse, and recycle
- Green marketing - stakeholder assessment creating long-term relationships with customers while maintaining, supporting, and enhancing the natural environment

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# Discussion Point – Green Product Offerings

Sheila_Fitzgerald/Shutterstock.com

Method produces biodegradable cleaning supplies. To reduce waste, it offers refills for its natural shower cleaner.

*What other companies offer "green" products?*

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# Consumerism

- **Consumerism** -consists of organized efforts by individuals, groups, and organizations seeking to protect consumers' rights
- Basic rights of consumer movement
  - Right to safety
  - Right to be informed
  - Right to choose
  - Right to be heard

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# Incorporating Social Responsibility and Ethics into Strategic Planning

- Difference between ethics and social responsibility
  - Ethics - judgments about what is right or wrong in a particular decision-making situation
  - Social responsibility - deals with the total effect of marketing decisions on society
- Both interrelated and profitable leading to their adoption by companies in strategic planning

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# Codes of Conduct

- **Codes of conduct** - formalized rules and standards that describe what the company expects of its employees
- Promote ethical behavior by reducing opportunities for unethical behavior
- Employees know
  - What is expected of them
  - What kind of punishment they face if they violate the rules

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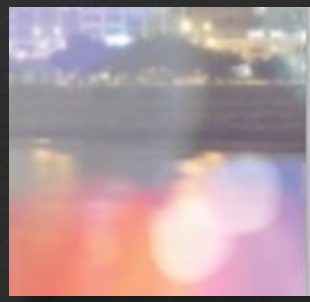
# Discussion Point - Social Responsibility and Strategic Planning



MADE OF SOMETHING BETTER
DENSE, NOT AIRY
We don't add a lot of air to our pints. Which means rich & creamy ice cream, heavy pints, and more bent spoons.
CARING DAIRY
Caring Dairy means happy cows, happy farmers and a happy planet. And buying from small family farms means a happy local economy, too.
NO GMOs
We source ingredients that are not genetically modified.
BROWNIES THAT DO GOOD
Greyston Bakery provides jobs & training to the disadvantaged and provides amazing brownies for our ice cream.
FAIRTRADE INGREDIENTS
We're committed to Fairtrade, which assures farmers a fair price and benefits their families, communities & the environment.
WE'RE A CERTIFIED B CORP
We've baked social & environmental commitments into our business, and share our progress with the world.
BEN & JERRY'S
Chocolate Fudge Brownie
benjerry.com

Source: Ben & Jerry's Homemade, Inc.

Ben & Jerry's incorporates social responsibility into its strategies. Its advertisement explains that its ice cream is made with fair trade ingredients and does not contain GMOs. It also emphasizes its support for the humane treatment of cows and job programs.

*What ads have you seen that demonstrate the company's values and social responsibilities?*

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# Codes of Conduct (continued)

- Less instances of observed unethical behavior can be a result of
  - Effective content
  - Frequency of communication regarding the code
  - Quality of communication
  - Incorporation of the code into the organization
- Include general ethical values and more marketing-specific issues

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# Table 3.4 – Observed Misconduct

| | |
|---|---|
| Overall | 41% |
| Abusive behavior | 18% |
| Lying to employees | 17% |
| Conflict of interest | 12% |
| Violating company Internet use policies | 12% |
| Discrimination against employees | 12% |
| Violations of health or safety regulations | 10% |
| Lying to customers, vendors, the public | 10% |
| Retaliation against reporters of misconduct | 10% |
| Falsifying time reports/hours worked | 10% |
| Stealing or theft | 9% |

Source: Ethics Resource Center, 2013 National Business Ethics Survey® of the U.S. Workforce (Arlington, VA: Ethics Resource Center, 2014), pp. 41–42.

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# Social Responsibility, Ethics and Marketing Performance

- Social responsibility has a synergistic effect on market orientation
- More firms are adopting a stakeholder orientation that focuses on all constituents
- Direct association exists between
  - Corporate social responsibility and customer satisfaction
  - Profits and market value
- Long-term value of conducting business in a socially responsible manner outweighs short-term costs

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